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SUBJECT: SANTO DOMINGO ECONOMIC-POLITICAL ROUNDUP, JULY 22,
2008

(U) In this edition of the roundup:

- [1](#)1. Government,s Plan to Address Economic Crisis
- [1](#)2. Fernandez Focused on Constitutional Reform
- [1](#)3. Subsidy Must Keep Pace with Oil Prices or Lights Will Go Out
- [1](#)4. Astwood Extradition Controversy

- [1](#)1. (SBU) Government,s Plan to Address Economic Crisis

In a speech on July 17, President Fernandez announced the government,s plan to address the economic crisis, created by the rising cost of food and oil, by cutting back on government spending, although most government salaries will be increased, and by better targeting some subsidies for the poor. The Finance Ministry is expected to send a supplementary budget to the Congress soon. According to Fernandez, government spending in the last quarter of the year will be cut by 20 percent, with no funding going toward new infrastructure projects. Fernandez announced a 15 percent increase in government salaries for employees earning less than 30,000 pesos (USD 882) a month, which includes 97 percent of public employees. Salaries of more than 200,000 pesos (USD 5,882) a month would be cut by 10 percent and those between 150,000 (USD 4,411) and 200,000 pesos would be cut by 5 percent.

Fernandez acknowledged that subsidies in the energy sector are unsustainable given the high international oil prices. He outlined a detailed plan to reduce Liquefied Petroleum Gas (LPG) subsidies which are currently provided to all sales of LPG with no restriction. The GoDR will only permit 24,000 drivers of collective taxis and 800,000 poor households to obtain limited amounts of subsidized LPG. Although the new subsidy will be USD 1 per gallon, double the current subsidy, Fernandez said targeting the subsidy would save the government USD 185 million on a yearly basis. Fernandez offered a vague plan for the electricity sector, including unspecified measures to reduce the cost of energy generation, new limitations to the Blackout Reduction Program and the deployment of 10 million fluorescent light bulbs to replace incandescent bulbs. He added that the government would increase its efforts to promote the production of renewable energy and biofuels. Regarding agriculture, Fernandez called for increased production and the strengthening of research on

innovative technologies. COMMENT: The speech lacked many details of how the measures would be implemented. Some members of the opposition parties commented in the media that the proposals are not new and that Fernandez has previously said he would cut government spending but has not followed through. Critics in the agriculture sector said they had hoped for new financing for production and subsidies for gasoline to address the high cost of transporting their goods.

12. (SBU) Fernandez Focused on Constitutional Reform

There are strong indications that constitutional reform will be a key priority of the next administration of Leonel Fernandez and his ruling PLD party. In a meeting with POLOFF, Alejandro Montas, a member of the PLD leadership in the House, said that it was likely that Fernandez would submit his proposed amendments to Congress on August 16 -- the same day that he is inaugurated. In comments to the media, the leadership of the opposition PRD party said that they planned to submit a rival package of amendments, and repeated their call for a Constituent Assembly to be elected to consider the changes. COMMENT: The big question is whether Fernandez will seek to eliminate term limits on the presidency. POLOFF asked Montas how the PLD planned to obtain the two-thirds majority in the house that they require to amend the constitution. Montas replied that there was the possibility that Fernandez and former President Mejia would strike a deal in which term limits would be eliminated (favoring both men) and Mejia would deliver the necessary PRD votes. In a sign that the PLD has a unity issue to manage, Montas added that he supports term limits, noting that he is a supporter of Danilo Medina, a Fernandez rival within the

PLD who has his eyes on another run for the presidency.

13. (SBU) Subsidy Must Keep Pace with Oil Prices or Lights Will Go Out

Energy company executives told EconOff that they are worried of a possible fiscal crisis if the government proves unable to maintain its high level of subsidies that are necessary to keep the grid from going dark. Economy, Planning and Development Secretary Temistocles Montas told the press July 21 that the government will not fully cover the under-budgeted deficit in the sector, offering figures that suggest a shortfall of about USD 300 million. If this happens, the grid will go dark, said AES Dominicana President Marco de la Rosa. He noted, however, that GoDR energy officials have assured him that the subsidy will continue and acknowledged an internal dispute regarding how the government will handle the subsidy in light of high oil prices. Dominican Corporation of State Electricity Companies (CDEEE) Radhames Segura told de la Rosa that the government may seek to renegotiate the power purchasing agreements, noting that the generators, profit margins have grown with the increase in oil prices. De la Rosa said that AES may be amenable to this request if the state pays off frozen debt from 2004, but with two months, arrears to the sector adding up to more than USD 100 million, he doubts that the GoDR will entertain this offer. On July 18, The CDEEE announced the payment of April's invoice and Segura told energy generators that the government intends to remain two months behind in payments, which at current prices is about USD 100 million. De la Rosa told EconOff that while this amount is manageable, any further delays could inhibit AES, bimonthly purchases of USD 40-million natural gas shipments.

14. (SBU) Astwood Extradition Controversy:

On July 8, the five judges of the Penal Chamber of the Dominican Supreme Court wrote to the Ambassador expressing indignation over our June 20 diplomatic note protesting the misapplication of the Dominican statute of limitations in the extradition case of Juan Astwood Burgos, who is wanted in the United States for the murder of a policeman. The Supreme Court also asserted in its letter (incorrectly, we believe) that the U.S. has not carried out any extraditions to the DR in 100 years. Several Dominican newspapers carried the story

on July 22, as the media had obtained copies of the Supreme Court,s letter and our original diplomatic note. Our press guidance is that we maintain excellent working relations with all levels of the Dominican judicial system and do not comment on diplomatic communications, which are private.

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